

Telephones. Under pre-TEFRA law, the excise tax on telephone service was set at 1 percent through the end of calendar year 1984, when it was scheduled to expire. TEFRA increased it to 3 percent for calendar years 1983-1985, with termination now scheduled for December 31, 1985. The increase is estimated to raise revenues by \$1.1 billion in fiscal year 1984 and \$1.6 billion in 1985 (taking into account the automatic offsets in income taxes). Continuing the 3 percent tax beyond 1985 would, over the long term, raise about \$2 to 3 billion a year in net additional revenues.

Alcohol. The tax of \$10.50 per gallon on distilled spirits has not been changed since 1951. Doubling it, to \$21.00, would raise about \$2.7 billion a year (after income tax offsets), putting the tax at about 45 percent of the average product price--slightly more than the 43 percent that the \$10.50 tax represented in 1951. Indexing the distilled spirits tax to the CPI would raise at least an additional \$0.5 billion in revenues each fiscal year.

Beer and wine--nondistilled beverages--are subject to other excise taxes. At present, the taxes on beer and wine together raise about \$1.9 billion each fiscal year. The excise taxes on beer and wine have not been raised since 1951. Doubling the beer and wine excise taxes would raise about \$1.3 billion a year in net new revenues. An additional \$0.2 billion could be raised each year by indexing the excise taxes on beer and wine to the CPI. Coordination of the taxes on different alcoholic beverages, either in terms of the percentage of retail cost or the tax per unit of alcohol, might be desirable; under present law, beer and wine are both taxed significantly more lightly than distilled spirits, with wine receiving the most favorable treatment.

Luxuries. Excise taxes on "luxuries"--defined to include fur clothing, jewelry, luggage, and toilet preparations--were enacted during World War II and repealed in 1965. A reinstituted excise tax on these items, set at 10 percent, would raise about \$1.7 billion a year in net federal revenues, with about \$0.7 billion each coming from jewelry and toilet goods, and the rest from furs and luggage. If the tax were limited to the amount above some high threshold--for instance, 10 percent of the retail price over \$1,000 for jewelry and furs--the revenue gain would be much smaller, probably not much more than \$100 million a year.

The definition of "luxuries" could be broadened to include automobiles and recreational boats. A luxury tax on expensive cars and boats would raise only small amounts if the tax was limited to the amount of the purchase price over some threshold. A tax of 10 percent on that part of the price of cars and boats that exceeded \$20,000 would only raise about \$200 million a year, for example. An undesirable "notch" effect would result if no tax was imposed on those costing less than \$20,000, for example, while a

full 10 percent was imposed on those costing \$20,000 or more. Taxing 10 percent of the full price of expensive automobiles and boats would raise about \$1 billion a year.

### User Fees

Revenues could also be raised by imposing fees on some federally provided services that are now available free of charge or at less than their true market cost. In effect, the government is transferring income and resources to the beneficiaries of these services if it does not impose charges equal to their costs. User fees could require that the cost of services be paid by those who use them. Chapter IX contains a discussion of a large number of user fee options. Those that take the form of revenues are shown in Table X-8.

TABLE X-8. ESTIMATED REVENUE GAINS FROM USER CHARGES  
CLASSIFIED AS REVENUES (In billions of dollars)

Options	1984	1985	1986	1987	1988	Cumulative Five-Year Increase
Highways	1.1	1.1	1.1	1.1	1.1	5.4
Airways	1.1	1.1	1.1	1.1	1.1	5.4
Inland Waterways	0.7	0.7	0.8	0.8	0.8	3.7
Strategic Petroleum Reserve	0.3	0.3	0.3	0.3	0.3	1.5

SOURCE: Congressional Budget Office.

Those user fees classified in the federal budget as revenues are mainly those that result from government imposition of a mandatory tax on some activity. Others are classified as offsetting receipts, and these show up as reductions in the outlay programs under which they fall. Offsetting receipts are collections that occur when the government acts like a private business

and sells some good or service for which it charges a fee. The fees collected offset the budgetary outlays associated with the federal activity.

### Social Security Payroll Taxes

The National Commission on Social Security Reform has recommended a series of measures that would add an estimated \$116 billion to the Social Security trust funds over the 1984-1988 period. About \$45 billion of that amount would be in the form of higher Social Security payroll tax collections. The net effect on 1984-1988 federal revenues would be less than that, however, since individual income taxes would be reduced by about \$11 billion because of the proposed credit against income taxes for 1984 payroll tax increases, and the proposed deductibility of half of payroll taxes for the self-employed. The proposed taxation of half of Social Security benefits for single people with incomes over \$20,000 and married couples with incomes over \$25,000 would raise income tax collections by an estimated \$22 billion over the period, and this amount would be transferred to the Social Security trust funds. As shown in Table X-9, the net increase in revenues from all the Commission's proposals is estimated to be about \$57 billion from 1984-1988. The options recommended by the Commission, as well as several other options, are discussed in detail in Chapter III.

### Tax Entitlement Benefits as an Alternative or Supplement to Direct Benefit Cuts

Many of the options outlined in Chapters III and V would entail cutbacks in entitlement programs that pay benefits directly to individuals, such as Social Security, Railroad Retirement, workers' compensation, veterans' disability compensation, unemployment compensation, and Aid to Families with Dependent Children. One way of cutting back on benefit payments is to reduce payments to recipients whose incomes are relatively high and who thus have less need for income support. This can be done either directly by tightening program eligibility standards or indirectly by subjecting some or all of the benefits to the individual income tax. An example under current law is unemployment compensation which, when received by persons with incomes of more than \$18,000 a year (\$12,000 for single people), is subject to tax. This affects largely those who are unemployed for only a portion of the year or who have income from other sources. Most other benefits, however, are tax free.

This same approach could be followed for other benefit payments to individuals. A number of possibilities are discussed in detail in Chapters III

TABLE X-9. REVENUE EFFECTS OF NATIONAL COMMISSION ON SOCIAL SECURITY RECOMMENDATIONS, PRELIMINARY ESTIMATES, FISCAL YEARS 1984-1988, (In billions of dollars)

Recommendation, By Tax Source Affected	1984	1985	1986	1987	1988	Cumulative Five-Year Increase
<b>Social Insurance Taxes and Contributions <u>a/</u></b>						
Coverage of Nonprofit and New Federal Workers <u>b/</u>	1	2	3	3	4	13
Revised Tax Rate Schedule	6	2	--	--	10	19
Higher Tax Rate for Self-Employed <u>b/</u>	1	3	3	3	4	14
<b>Individual Income Taxes</b>						
Taxation of Benefits for Higher-Income Persons <u>c/</u>	1	4	5	6	6	22
Income Tax Deduction for Half of Self- Employment Tax	-1	-2	-1	-2	-2	-7
Income Tax Credit in 1984 for Payroll Tax Increase	--	-4	--	--	--	-4
<b>Total</b>	<b>9</b>	<b>6</b>	<b>9</b>	<b>10</b>	<b>23</b>	<b>57</b>

SOURCE: Congressional Budget Office and the Joint Committee on Taxation.

NOTE: Detail may not add to totals due to rounding.

- a. Only OASDI revenues.
- b. Calculated with revised tax rate schedule. The estimate includes ban on withdrawal of state and local workers, but ignores any revenue loss from reduced federal civilian employee retirement contributions.
- c. These income tax revenues are to be transferred to the Social Security trust funds.

and V. Examples of the revenue gains that could be obtained from taxing entitlement benefits are shown in Table X-10.

TABLE X-10. ESTIMATED REVENUE GAINS FROM TAXING SELECTED ENTITLEMENT BENEFITS (In billions of dollars)

Options	1984	1985	1986	1987	1988	Cumulative Five-Year Increase
Tax Half of Retirement Benefits for Social Security Recipients with Incomes Above \$12,000/\$18,000	1.7	5.8	6.6	7.4	8.2	29.7
Tax 40 Percent of Railroad Retirement Benefits	0.5	0.7	0.8	0.8	0.8	3.6
Tax Workers' Compensation Benefits	1.5	2.4	2.8	3.2	3.6	13.5
Tax All Unemployment Insurance Benefits	a/	1.7	1.6	1.7	1.6	6.6
Tax Veterans' Disability Compensation	1.1	1.8	1.8	1.8	1.8	8.4

SOURCE: Congressional Budget Office and the Joint Committee on Taxation.

a. Less than \$50 million.

#### CONCLUDING COMMENTS

The Congress is faced simultaneously with unprecedentedly large and persistent future budget deficits and the worst recession since World War II.

Raising revenues is an obvious course to help reduce future deficits, but timing is a critically sensitive issue. Revenue increases could make the current recession worse if they took effect before recovery was fully under way. This chapter therefore emphasizes revenue-raising options that could be put into effect gradually, and that would provide a stable and reliable source of revenue well into the future.

Tax increases inevitably inhibit economic activity to some extent, no matter when they are put into effect. The chapter therefore focuses on tax increase options that would minimize adverse effects on the incentives to work, save, and invest--such as measures that would tend to equalize the rate of tax on different investments, or make possible reductions in marginal tax rates.

Measured against these criteria, tax increases designed explicitly to achieve short-term effects--such as income tax surcharges of various kinds--do not stack up well. If they were to take effect soon they would raise taxes when an increase might be harmful, while doing nothing to help the longer-term deficit problem. Many forms of surtaxes also increase marginal tax rates, which could further inhibit economic activity.

Limits on using special tax deductions, exclusions, or exemptions--such as the existing individual and corporate minimum taxes--could well serve to even out somewhat the tax treatment of different industries and economic activities. The greater neutrality of saving and investment incentives could improve the allocation of resources, and thus economic growth. Broadening this minimum tax approach by bringing in additional forms of untaxed or lightly taxed income could be a further move toward neutrality.

Major base-broadening and rate-reduction initiatives for both the individual and the corporate income taxes are most consistent with the economic criteria described above. Reductions in marginal rates can increase work, saving, and investment incentives; broadening the tax base by subjecting more forms of income to regular taxation can encourage a more efficient and productive flow of investment resources. In addition, the need to phase in most base-broadening initiatives to avoid unfairness and dislocation ensures that the resulting tax increases would not occur during the current recession, while the structural nature of the changes required makes it likely that they would remain in place well into the future, providing a reliable flow of long-term revenues.

The various energy tax options do not increase marginal tax rates on work, saving, or investment, but taxes limited to certain forms of energy could distort investment away from those types of energy and toward others. Energy policy may justify selective encouragement and discouragement.

ment of different types of energy production or use, however. Energy policy considerations might suggest that coal production and use be encouraged, for example, since the United States has ample and secure domestic supplies of coal. Some energy tax options are explicitly short term, such as a windfall profit tax on natural gas. Such a tax could harm short-term economic prospects while doing very little to narrow long-term deficits.

Excise taxes of various kinds also do not increase marginal income tax rates, but they also can distort consumers' decisions. Again, however, other considerations may make these kinds of incentives and disincentives desirable from some perspectives. Excise taxes on alcohol and cigarettes, for example, may be viewed favorably as tending to discourage activities that impose costs on society.

User charges, judged on economic and budgetary grounds, stack up well. They encourage efficient allocation of resources, and they can usually be designed to remain in place for long periods.

Social Security payroll tax increases, generally evaluated in the context of the needs of the Social Security system, can also be a major source of federal revenue. Nonetheless, depending on their form, they could increase marginal tax rates on labor and thus discourage work effort, and increase the cost of labor to employers and thus discourage hiring. They can also add to inflation. Most proposals are explicitly long-term measures, and thus such increases could assist with the long-term deficit problem.

Taxing benefit payments to individuals under the income tax can be an effective way of directing scarce government resources to persons most in need. Taxing benefits might also be administratively easier than implementing income-dependent eligibility rules, unless a reliable and accepted system for checking beneficiaries' incomes and limiting benefits on a regular basis is already in place. Taxing benefit payments represents the kind of structural change that is likely to remain in place over the long term, producing a steady flow of revenues.



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## APPENDIXES

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## APPENDIX A. INCOME TAX BASE-BROADENING OPTIONS

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This Appendix presents 29 options to increase revenues over the 1984-1988 period by broadening the base of either the individual or the corporate income tax. Four additional base-broadening options, dealing with the taxation of transfer payments, are examined in Chapter V, which covers other benefit programs. One other, the taxation of part of Social Security benefit payments, is considered in Chapter III, along with other Social Security options. Other major tax increase options, including repeal of indexing, income tax surtaxes, energy taxes, and excise taxes are discussed in Chapter X. Chapter IX covers user charges and Chapter III Social Security payroll tax increase options; these discussions are summarized briefly in Chapter X. All the revenue increases are relative to the CBO baseline, which projects what revenues are likely to be under current law, assuming that the economy performs as presented in a companion volume to this report, The Outlook For Economic Recovery. The actual baseline used in this analysis is summarized in another companion volume, Baseline Budget Projections For Fiscal Years 1984-1988.

As with the deficit reduction options, the individual tax increase options cannot be added to an aggregate total, because there are often complex interactions and offsets among the options. In addition, the estimates do not include any indirect effects, nor do they assume any major behavioral changes resulting from the tax changes. Unless specified otherwise, the estimates assume that the proposals under discussion take effect on January 1, 1984. The items discussed in this Appendix are simply illustrative examples. The inclusion of an item, or omission of one, does not imply a recommendation by CBO. The options in this appendix are ordered according to the budget function they would affect.



## PHASE OUT DOMESTIC INTERNATIONAL SALES CORPORATIONS

	Annual Added Revenues (billions of dollars)					Cumulative Five-Year Addition
	1984	1985	1986	1987	1988	
Addition to CBO Baseline	a	0.2	0.3	0.5	0.6	1.7

a. Less than \$50 million.

Domestic International Sales Corporations (DISCs) are special corporations established as conduits for export sales. As such, they are "paper corporations" with no employees and no actual operations that allow their parent corporations to defer the payment of income taxes on a portion of their profits. In the case of most DISCs, 50 percent of the parent corporation's export-related profits may be allocated to the DISC. About 42 percent of the tax liability on these profits above a base level can be deferred indefinitely, amounting to about a 21 percent tax deferral for the parent corporation ( $0.5 \times 0.42 = 0.21$ ). The subsidy is enhanced by use of special intercompany pricing rules governing the allocation of income between the DISC and its suppliers.

The principal objective of the 1971 legislation establishing DISCs was to increase exports as a way of improving the U.S. balance of trade and increasing domestic employment. They were intended to help offset existing tax incentives--both domestic and foreign--that encourage U.S. companies selling products abroad to establish plants abroad rather than to produce goods at home. Some evidence suggests that the level of exports increased somewhat during the 1973-1979 period because of the DISC provisions. Most of this increase took the form of one-time expansions of exports during the first few years of each DISC's operation. Some of the increase in exports attributable to DISCs comes at the expense of non-DISC exporting companies, however.

TEFRA reduced several corporate tax preferences, including those applying to DISCs. The act provided for a 15 percent cut in the DISC subsidy by increasing from 50 percent to 57.5 percent the share of DISC profits that must be distributed to shareholders as taxable dividends. Additional revenues could be gained by phasing out DISCs altogether. One method of doing so would be to phase out tax benefits for DISCs at an annual rate of 25 percent over a four-year period, beginning January 1, 1984. This would increase federal revenues by about \$1.7 billion over the

1984-1988 period. Deferral of the accumulated tax liability on past earnings of DISCs could continue as long as the earnings remained invested in export-related assets, or some or all of the accumulated tax liability could be recaptured over a specified period. If included, recapture of accumulated tax liability on past earnings would increase the revenue gained from repeal of the DISC provision.

Critics of DISCs contend that the subsidy, in addition to having only a modest effect on exports, has other flaws as well. They maintain that the subsidy is too inflexible to respond to changes in the overall U.S. trade position--in particular, that it cannot be reallocated easily as prospects for growth in the exports of some commodities improve or as the need to assist ailing industries grows. In addition, other countries see DISCs as illegal tax-subsidy vehicles violating the General Agreement on Tariffs and Trade (GATT). Some Members of Congress and Treasury officials are now examining various alternatives to DISCs, but most suggestions have concentrated so far on designing a subsidy that conforms with GATT, rather than on reducing the revenue loss from DISCs or a similar type of export subsidy.

## REDUCE CREDIT FOR INCREMENTAL RESEARCH EXPENDITURES

	Annual Added Revenues (billions of dollars)					Cumulative Five-Year Addition
	1984	1985	1986	1987	1988	
Addition to CBO Baseline	0.3	0.5	0.2	a/	a/	1.0

a. Less than \$50 million.

The Economic Recovery Tax Act of 1981 authorized a nonrefundable 25 percent income tax credit for certain research expenditures. Qualifying expenditures are limited to those that exceed the average for the three preceeding taxable years; thus, the credit applies only to incremental expenditures above some approximation of the taxpayer's customary level. The credit is available only for research expenditures through the end of calendar year 1985. Reducing the credit to 10 percent as of December 31, 1983, would increase federal revenues by \$0.3 billion in fiscal year 1984 and by \$1.0 billion in total over the 1984-1988 period.

Critics argue that this credit is unnecessary and inefficient. Though expenditures that generate income over a number of years are generally written off for tax purposes over a like period, research expenditures can be written off completely in the first year. Thus, even without the credit, research expenditures have access to preferential treatment. The formula used to distinguish "incremental" from "customary" research expenditures also presents a number of problems. New firms are limited to a credit for only half of their expenditures, and research to explore an area in which a firm is not already doing business is not creditable at all. Restricting the credit to increases in research spending eliminates any incentive to troubled firms to maintain their research activities, since letting research spending fall can create a low base period and thus increase the credit in a later year. The credit could actually induce firms with ongoing research programs to postpone some of the activities for a year or more, in order to create such a low base period. Further, there is evidence that some foreign firms have moved research activities to the United States to obtain the tax credit, even though the fruits of the research are used mainly in their home countries. Finally, the availability of both first-year write-offs and the 25 percent credit might lead some firms to wasteful spending at the expense of the Treasury.

The credit for incremental research expenditures may be sufficiently inefficient or idiosyncratic that its revenue cost could better be devoted to maintaining other incentives for capital formation or innovation. Reducing the credit could also be justified as a deficit-reducing measure.

Proponents of the credit argue, on the other hand, that the payoff from investment in research and development is so uncertain and sometimes remote that firms will not invest sufficiently in such activities without some form of subsidy. Business investment in research and development has remained essentially flat in recent years, proponents argue, at levels below comparable spending in countries such as Japan and West Germany.

## REPEAL PERCENTAGE DEPLETION ALLOWANCE FOR OIL AND GAS

	Annual Added Revenues (billions of dollars)					Cumulative Five-Year Addition
	1984	1985	1986	1987	1988	
Addition to CBO Baseline	0.9	1.7	1.9	2.0	2.2	8.7

The Tax Reduction Act of 1975 repealed the percentage depletion allowance for major oil and gas companies and phased it down for independent producers. The percentage depletion rate for independent producers is 16 percent in 1983; it is to drop to 15 percent in 1984 and following years, and it is limited to an average of 1,000 barrels per day for each producer. (The rate is 22 percent for secondary and tertiary production until 1984, when it is to drop to 15 percent.) About one-fourth of oil and gas production is currently eligible for percentage depletion. Eliminating percentage depletion would increase federal revenues by about \$8.7 billion over the 1984-1988 period.

Without percentage depletion, oil and gas producers would use cost depletion allowances, under which the actual cost of discovery and development can be written off over the producing life of a well. Producers would recover the amount of their investments, but no more. Under percentage depletion, the allowable percentage amount can be written off every year for as long as the well is in production; this, in combination with the expensing of intangible drilling costs, can allow the original cost of a well to be written off many times over the course of its life.

The oil and gas depletion allowance is defended as a necessary incentive for energy production--especially for independent producers, who may have less ready access to capital than do major oil and gas companies. The sharp rises in oil and gas prices in recent years, however, have greatly increased economic incentives to produce oil and gas. Since the allowance is a percentage of gross receipts, the value of the depletion allowance has increased accordingly. The 1,000-barrel-per-day limit permits independent producers with gross receipts exceeding \$11 million a year to benefit from percentage depletion. Firms with gross receipts at that level are in the top 2 percent of all U.S. business firms and would be unlikely to encounter unusual difficulties in obtaining capital; therefore, their need for the percentage depletion allowance may be open to question.

# REPEAL EXPENSING OF INTANGIBLE DRILLING COSTS FOR OIL AND GAS

	Annual Added Revenues (billions of dollars)					Cumulative Five-Year Addition
	1984	1985	1986	1987	1988	
Addition to CBO Baseline	2.6	4.5	4.2	4.1	3.9	19.3

Under standard accounting practices, the cost of acquiring or improving an asset intended to produce income over several years is recaptured by a depreciation allowance spread over the useful life of that asset. Taxpayers engaged in oil and gas drilling, however, can generally deduct the amount they spend on "intangible drilling costs" in the year the expenditure is made--that is, they may "expense," rather than "capitalize," the qualifying costs. The costs that are permitted this special treatment include amounts paid for fuel, labor, repairs, hauling, and supplies used in drilling; the costs of clearing ground in preparation for drilling; and the intangible (that is, nonsalvagable) costs of constructing derricks, tanks, pipelines, and other structures and equipment necessary for the drilling and preparation of wells. Typically, these outlays account for about three-quarters of total costs. When these costs are expensed rather than capitalized, taxes on income are effectively deferred; the difference is tantamount to an interest-free loan in the amount of the delayed tax liability.

Under TEFRA, the expensing of intangible drilling costs was limited to 85 percent of otherwise allowable costs. The remaining 15 percent of allowable costs must be added to the cost of the oil, gas, or geothermal property and written off over a 36-month period. If expensing were repealed entirely, federal revenues would increase by about \$19.3 billion over the 1984-1988 period.

The major argument for total repeal is that the subsidy is no longer necessary in light of the sharp increases in oil and gas prices in recent years, the decontrol of deep-well natural gas in November 1979 and of all domestically produced oil in January 1981, and the scheduled decontrol of most intrastate and newly drilled natural gas in 1985. Moreover, proponents of repeal argue that the expensing of intangible drilling costs is an ineffective subsidy for promoting high-risk exploratory drilling, since it provides the same incentive for low-risk drilling in already developed and producing fields as it does for exploratory drilling in new areas. If intangible drilling costs had to be capitalized, the costs of unproductive "dry

holes" could continue to be written off immediately under normal accounting rules. This standard tax treatment would give exploratory drilling a comparative advantage over developmental drilling, thereby encouraging exploration.

Unlike the percentage depletion allowance for oil and gas (see previous Appendix item), which is no longer available to large oil and gas companies, the expensing of intangible drilling costs provides significant tax savings to major oil companies. In 1981, for example, the expensing of intangibles reduced Atlantic Richfield's effective tax rate by 6.0 percentage points, Exxon's by 6.3 percentage points, Gulf's by 3.9 percentage points, and Standard Oil of Indiana's by 6.1 percentage points. These companies were also able to take advantage of other preferential tax provisions, such as accelerated depreciation and the investment tax credit.

The major argument for retaining the expensing of intangibles is that oil and gas drilling is a high-risk investment that must be promoted for a more independent national energy supply. In addition, other intangible costs, such as exploration and development costs for minerals and fuels and some construction-period interest and taxes, also may be expensed rather than capitalized under current law. Finally, with the substantial increases in depreciation allowances and the investment tax credit enacted in 1981, many forms of equipment now receive tax treatment that is as favorable as expensing, and in some cases more so. Advocates of expensing argue that requiring the capitalization of intangible drilling costs would give these costs less favorable treatment than is now accorded to some investment in equipment and that some investment choices may therefore be distorted. Limits were put on the investment tax credit and the Accelerated Cost Recovery System of depreciation in TEFRA, but most equipment still receives more favorable treatment than intangible drilling costs would, were there no special tax preference for them.

## REPEAL RESIDENTIAL ENERGY TAX CREDITS

	Annual Added Revenues (billions of dollars)					Cumulative Five-Year Addition
	1984	1985	1986	1987	1988	
Addition to CBO Baseline	0.1	0.9	1.0	0.1	a/	2.0

a. Less than \$50 million.

The Energy Tax Act of 1978 provided homeowners and renters a tax credit of 15 percent of the first \$2,000 spent on insulation, storm windows and doors, caulking, and other expenditures made to conserve energy use in their principal residences. The credit applies only to residences built before April 20, 1977, and the cumulative credit per taxpayer for any one principal residence cannot exceed \$300. Availability of the credit is scheduled to expire at the end of 1985. The same legislation also established a larger credit for the installation of solar, geothermal, wind, or other "renewable" energy equipment in a taxpayer's principal residence. Two years later, under the Crude Oil Windfall Profit Tax Act of 1980, the "renewable energy source" tax credit was raised to 40 percent of the first \$10,000 spent, for a maximum credit of \$4,000 on any one principal residence. The credit applies to equipment installed between April 20, 1977 and December 31, 1985.

According to preliminary data, the revenue loss in 1981 from the conservation credit was about \$360 million, and the loss from the renewable energy source credit was about \$260 million. Of the amount spent under the conservation tax credit, 87 percent was for insulation and storm windows or doors, and 94 percent of the amount spent under the renewable energy source tax credit was for solar energy equipment. Advancing the expiration dates for both of these credits to December 31, 1983 could increase federal revenues by about \$2.0 billion over the 1984-1988 period.

After lengthy empirical analysis, a recent Congressional Research Service study concludes that there is little evidence thus far that the residential energy tax credits have been effective in promoting energy conservation. The study attributes most residential energy conservation in the last three years to rising energy prices. A substantial portion of the revenue loss from the energy tax credits may therefore represent a windfall to taxpayers for doing what high energy prices would induce them to do anyway. Also, with the decontrol of crude oil prices in January 1981, and